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To: County and District Superintendents
County and District Chief Business Officials
Charter School Administrators

From: Janet Sterling, Director
School Fiscal Services Division

Subject: **Financial Reporting for Charter Schools**

This is a follow-up to our two memoranda (dated May 22, 2000 and September 11, 2000) regarding financial reporting for charter schools. In those memoranda, we informed you of the requirement for charter schools to report year-end financial information to the California Department of Education (CDE), and described the manner in which the information should be reported.

We are now writing to advise you that, absent a change in the law, charter schools are not required to submit year-end financial reports to CDE. This change is the direct result of a lawsuit brought against CDE by the Pacific Legal Foundation on behalf of the California Network of Educational Charters (CANEC), a nonprofit corporation, and Constellation Community Middle School of Long Beach, a charter school and nonprofit corporation. In granting the summary judgment motion in favor of CANEC and Constellation, in Sacramento County Superior Court, Case No. 01AS02690, the judgment of which was entered on April 29, 2002, by the Honorable Joe S. Gray, the Court found that CDE did not have the statutory authority to require charter schools to submit annual financial data, and that the two memoranda were not valid exercises of CDE's authority with respect to charter schools.

In light of this judgment, CDE is withdrawing the requirement for charter schools to report year-end unaudited financial data in the manner prescribed in the two prior memoranda issued by CDE. However, recognizing that there are many local educational agencies (LEAs) that include charter data in their General Fund (or County School Service Fund), LEAs may continue to report charter data along with their own data if they so decide. Charter school financial data will be accepted by CDE if the charter school information is submitted electronically with the authorizing LEA's financial data, using the J-200 format or the standardized account code structure (SACS) format, whichever format is used by the authorizing LEA. As before, charter financial information does not need to be approved by the district or county office of education

governing board, but must be submitted with the LEA's data. Charter school data can be reported in the authorizing LEA's General Fund or Charter Schools Fund.

While submission of J-200 or SACS charter financial information to CDE is optional, it is imperative that we know whether unaudited actual charter financial data are included with the LEA's data submission. This can be accomplished through use of the Charter Schools Financial Reporting Status checklist form, which county offices will be receiving separately. For the past two years, each county office of education with charter schools within the county has been using this checklist form to report how charter school data within the county are being reported, and we request that county offices of education continue to return the completed form to us when they submit the financial reports from their county.

Reminders and Considerations

In our memorandum of May 22, 2000, we provided guidance in several areas of financial reporting for charter schools and their authorizing LEAs to consider; this guidance may be relevant to the authorizing LEA's decision to report or not report charter data. (If you need to refer back to either of our two memoranda, they are available on our School Fiscal Services Division Web site at www.cde.ca.gov/fiscal/financial/corresp.htm.)

We also discussed several issues in the May 22 memorandum that should be considered by authorizing LEAs in determining whether to report unaudited financial data for charter schools in the General Fund or the separate Charter Schools Fund. These issues should still be considered if you decide to report charter school financial data for 2001-02:

1. Charter school data reported in the General Fund of the authorizing LEA will be subject to the calculation of compliance with the classroom teacher salary percentage required by *Education Code* Section 41372, although, if the LEA does not meet the required thresholds, the LEA can provide an explanation in the technical review checks in the financial software that the non-compliance is due to the inclusion of the charter school data. A penalty will not be assessed if the non-compliance is due to the inclusion of the charter school data in the General Fund. (This calculation does not apply to county offices of education.)
2. Charter school data included in the General Fund will be included in the calculation of the LEA's indirect cost rate. The charter school will be able to use the indirect cost rate of the LEA, if needed.
3. When charter school data are not reported at all or are reported in the Charter Schools Fund, the charter school will not have an indirect cost rate, nor will the charter school be able to use the indirect cost rate of the authorizing LEA.

While charter schools are not required to report year-end financial data, they are still responsible for tracking certain state and federal expenditures for compliance requirements, and they should expect to respond to inquiries or requests for data from CDE regarding program expenditures when compliance issues are involved. (Responding to requests for data for compliance purposes is required only if the charter school has chosen to accept money from a program that has "strings" attached, such as Title I, Special Education, or other programs that are outside of the charter school categorical block grant.)

Alternative Formats

Until the issuance of the judgment in the CANEC case regarding charter schools financial reporting, CDE was working with the charter school community on providing alternatives to the J-200 and SACS formats for charter schools to use for financial reporting. These alternatives were intended to provide greater reporting flexibility to meet the needs of all types of charter schools. The alternatives included a nonprofit accounting and financial reporting model and a format that would have provided a methodology to calculate an indirect cost rate for charter schools. However, because of the uncertainties surrounding the lawsuit and the lateness of the court's decision in relation to our software development schedule, we are now abandoning the production of alternate reporting formats for charter schools, at least for this year.

Where Do We Go From Here?

State Superintendent of Public Instruction Delaine Eastin recently wrote to the Governor to notify him of the need for changes to current charter school law with respect to financial reporting and fiscal liability. Her letter informs him of the judicial decision curtailing our ability to collect specific information, and requests his support in addressing this problem.

Because Superintendent Eastin's letter was also sent to all members of the Legislature, we hope that this alert will cause the Legislature and the Governor to focus their attention on this issue, resulting in meaningful changes or clarification to current charter school statutes. We will keep you informed of any progress in that regard.

For More Information

If you have further questions about financial reporting for charter schools for 2001-02, please contact our Office of Financial Accountability and Information Services at (916) 322-1770, or by e-mail at faisinfo@cde.ca.gov.